THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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Order Instituting Rulemaking on the Commission's Own Motion to Conduct a Comprehensive Examination of Investor Owned Electric Utilities' Residential Rate Structures, the Transition to Time Varying and Dynamic Rates, and Other Statutory Obligations.	Rulemaking 12-06-013 (Filed June 21, 2012)

OPENING COMMENTS
OF THE OFFICE OF RATEPAYER ADVOCATES

GREGORY HEIDEN
Attorney for the Office of Ratepayer Advocates

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 355-5539
Fax: (415) 703-2262
E-MAIL: GREGORY.HEIDEN@CPUC.CA.GOV

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SUBJECT INDEX

TABLE OF AUTHORITIES

(NONE CITED)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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Pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure, and Assigned Administrative Law Judge ("ALJ") McKinney's April 29, 2015 Ruling, the Office of Ratepayer Advocates ("ORA") hereby submits its opening comments in the above-captioned matter.

There are many complex and challenging issues associated with reforming the current residential rate structure and transitioning to time-varying rates ("TVR"). ORA appreciates the assigned ALJs' and supporting Energy Division ("ED") staff's relentless effort in dissecting voluminous documents submitted by parties to develop the proposed decision ("PD"). In general ORA supports the PD. The PD makes the appropriate policy calls on the major issues. The PD rejects attempts by the IOUs to indefinitely delay implementation of default time of use ("TOU") rates for residential customers, and orders default TOU beginning January 1, 2019. The PD also orders TOU pilots and optional rates in the meantime, which will be much better designed than some of the IOU proposals, such as PG&E's proposal to add a customer charge and remove a baseline credit from its optional TOU proposal. On the issue of customer charges, while ORA supports the PD's rejection of the IOU's customer charge proposals, the PD also makes several legal and factual finding on fixed charges that are not supported by the record and should be removed. ORA supports the PD's rejection of the IOU's short term tiered-rate reform and adopts a more reasonable glide path, which reduces the bill impacts to many customers. However, the discussion of tier reductions requires further explanation and clarification. Consistent with Rule 14.3 ORA comments on factual and legal errors relating to these issues and also areas which require further explanation in order to clarify the PD's intent.

I. THE PD PROPERLY ORDERS THE IOUS TO MOVE FORWARD ON DEFAULT TOU IN 2019

The PD notes that TOU rates are high on state policy priority[1] and they more fairly reflect the cost of service.[2] The PD further states that TOU will facilitate optimizing use of the advance metering infrastructure (AMI) and new energy efficiency technology, and will reduce overall electricity costs for all customers in the long term.[3] Based on these and other reasons, the PD properly orders the IOUs to implement default TOU in 2019. The PD notes that the IOUs have been slow in embracing TOU rates despite its high state policy goal.[4] Therefore, the PD discusses next steps that require the IOUs to submit intermediate TOU readiness progress reports and workshops to update the Commission and the public regularly.

ORA appreciates the PD's thoughtfulness in its discussion on next steps.[5] The PD agrees with ORA that: 1) tiered reform needs to be monitored and should progress at a reasonable pace and 2) default TOU should be rolled out successfully in 2019. ORA recommends the Commission further directs IOUs in their Progress on Residential Rate Reform ("PRR") to 1)Identify areas that could be road blocks that would delay default

[1] PD, p. 117.

[2] Id., p. 2.

[3] Id., p. 2.

[4] Id., p. 117.

[5] Id., p. 271.

TOU implementation and 2) Take actions to ensure that default TOU is implemented successfully in 2019.

II. FIXED CHARGES

A. The PD's Order that the IOUs Include Customer Charges in Future Rates is Not Supported by the Record

While ORA appreciates the PD's decision to postpone the implementation of fixed charges, the PD's order to the IOUs to file rates with customer charges as part of a transition to default TOU rates is not supported by the record. Even though it rejects the proposed customer charges, the PD still contains some discussion supporting fixed charges in concept. For instance, despite not adopting the IOUs fixed charge proposals, the PD finds "a fixed charge representing a portion of the fixed costs to serve the individual residential customer is reasonable."[6] This finding is not supported by the record, and will lead to continuous relitigation of the fixed charge issue that involved significant resources in this proceeding.[7]

The basis for the PD's findings in support of fixed charges is not entirely clear. For instance, the PD finds that customers previously rejected customer charges, and that "Consumer acceptance and understanding is incorporated into the rate design principles in this proceeding, including principles 6 and 10." However, the next sentence in the PD states, "based on this, we agree that a fixed charge representative of fixed customer-related costs should be part of residential rate design."[8] So while the PD acknowledges that customers do not want customer charges, the PD disregards its own conclusion and, instead, allows the IOUs to file rates in 2018 that include a fixed charge proposal.

ORA's primary recommendation was to support minimum bills rather than fixed residential customer charges. ORA also proposed that the Commission consider giving customers options with and without residential customer charges as a way to consider

[6] PD, Conclusion of Law 15.

[7] Heading 7.1.1 states "a fixed charge is reasonable for fair residential rate design"

[8] PD, p. 196.

customer preference. ORA presented this recommendation as a compromise proposal. The Commission recently supported this approach in allowing SCE to have tariffs with both a customer charge and without a customer charge.[9] By failing to consider ORA's proposal for optional fixed charge tariffs, the PD contains legal error. Therefore, while ORA agrees with the PD's determination that customers don't prefer customer charges, ORA does not agree that there is a sufficient record to endorse the IOUs filing future customer charges.

The PD appears to justify customer charges, in part, on the fact that other utilities have them. It reiterates the IOU comments that "California's small electric utilities and many municipal utilities and investor owned utilities across the country already use a fixed charge to recover a portion of fixed costs."[10] However, the PD does not acknowledge or discuss ORA's reply to this argument. First, only two of the three small electric utilities have fixed charges, suggesting that, at this point, the majority of California's six IOUs do not have fixed charges.[11] Regarding utilities across the country, ORA argued that most of them do not employ marginal cost pricing.[12] As ORA testified, under a marginal cost pricing regime, the utilities rates are set in a way to best simulate a competitive market. The great majority of the competitive market does not used fixed cost pricing, and the PD does not articulate why such a departure is appropriate for the large IOUs.[13]

Further, as ORA testified, the majority of utilities across the country do not have decoupling. Decoupling is a mechanism in California that assures that utilities recover costs regardless of sales.[14] Customer charges were likely adopted in other regions to help

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[9] ORA Opening Brief, pp. 29-30.

[10] PD, p.186. Finding of fact 171 states "Fixed charges are used in other industries and by other utilities, including other electric utilities in California", but there is no discussion or finding in the Decision about this, including ORA's analysis. Therefore the Finding of Fact should be taken out.

[11] ORA Reply Brief, p. 16.

[12] ORA Exhibit 101, pages 2-3 to 2-4.

[13] ORA Opening Brief, p. 34-35.

[14] Id., pp. 32-34

provide more certainty of cost recovery for the utility company. In California, IOUs are guaranteed nearly full cost recovery with the balancing account protection that they receive. Failure to consider ORA's evidence that both decoupling and non-marginal cost pricing are prevalent in jurisdictions that allow fixed charges is legal error.

Elsewhere, the PD appears to justify fixed charges on the basis of an obligation to serve by stating, "In the regulated electricity industry, utilities remain required to provide 'service or residual access' to customers regardless of whether they decide to purchase electricity at any given time."[15] This section of the PD ignores the concept of the "regulatory compact", whereby a monopoly is granted a monopoly franchise along with an obligation to serve within the franchise area. ORA also repeats that utilities are not at a risk for cost recovery for this "service or residual access" because of balancing account protection, and thus they do not need fixed charges for this cost recovery. The PD itself states: "The utilities acknowledge that fixed charges are not necessary for revenue stability or cost recovery."[16]

In the same paragraph, the PD states: "Unbundling customer charges from volumetric rates would also resolve any concerns regarding extremely low and zero usage customers essentially acting as free riders with respect to the fixed customer costs associated with providing them with residual access to utility service." A minimum bill would also guarantee that extremely low and zero usage customers also contribute towards paying for system costs.

The PD also ignores ORA's extensive arguments on the uses of fixed charges in other industries and finds, without analysis or comment, that "customers have accepted fixed charges in contexts outside of their electric bill."[17] The issue of customers in other industries accepting customer bills was heavily debated in this proceeding.[18] ORA

[15] PD, p. 191.

[16] PD, p. 191.

[17] Finding of Fact 172.

[18] ORA Opening Brief, pp. 33-35.

argued that customer did not accept customer charges in other industries except for rare circumstances that were distinguishable from electric rates. Further, those customers had the choice of whether or not to take give business to those companies, like Costco.[19] The PD does not evaluate these arguments concerning customer acceptance either.

B. Problems with Certain Findings of Fact

Some of the Findings of Fact ("FOF") have an incorrect impression of GRC Phase II proceedings. FOF #174 states: "Fixed costs attributable to residential customer class are litigated in GRC Phase 2". Then FOF # 176 states: "Recent GRCs have usually settled the allocation of fixed costs and are therefore not useful as a basis for setting a new rate structure that was not contemplated during the GRC settlement." For most parties, the revenue allocation of revenue responsibility to the customer classes is the primary issue in a GRC Phase 2 proceeding. Marginal cost proposals are the foundation of this revenue allocation process. However, there is no consensus about the proper method for calculating marginal costs. Parties representing the various customer classes have different ideas on how to calculate marginal costs, but try to reach compromise in the settlement process, on marginal costs and the revenue allocation. Thus, it is more accurate to state that marginal costs, including marginal customer costs, are examined in GRC Phase 2 proceedings for the purpose of arriving at the revenue allocation to the various customer classes. ORA asserts that these marginal customer costs used in this process should not be considered to be fixed costs.

In addition, FOF #177 and #178 are not supported by the record and should be deleted. FOF #177 states: "A fixed charge to reflect fixed costs will send a more accurate price signal to customers." It is unclear what kind of price signal this FOF has in mind when the PD also states "According to ORA, a significant problem with fixed charges is that there is no meaningful way for customers to respond to a fixed charge other than by terminating service." [20] Two sentences later, the PD seems to express agreement with

[19] Id.

[20] PD, p. 187.

ORA when it states "ORA is correct that customers cannot avoid these costs unless they terminate service, and unless that customer does terminate service, the utility cannot avoid incurring these costs either." FOF # 178 continues in this direction: "A fixed charge is not intended to incent [sic.] specific customer behavior, but is intended to assist the customer in making economically efficient decisions regarding energy usage and investments." How can a charge *not* be intended to incentivize specific behavior and at the same time incentivize more economically efficient decisions about energy usage? Clearly, underlying the very concept of a price "signal" is to tell customers to do something, and a fixed charge sends no useful price signal to customers. It makes no sense to say that fixed charges are an accurate price signal, but then to conclude that they are not intended to incent specific customer behavior. These FOFs are not supported by the record and should be deleted.

FOF # 164 should add the words "or minimum bill" to make a more accurate statement. : "A fixed charge *or minimum bill* to reflect a portion of fixed costs would reduce the current subsidy to vacation homeowners and NEM customers." There is nothing in the record to show that a minimum bill of the same level of a customer charge would be any less effective in reducing "subsidies" to vacation homeowners and NEM customers. The same addition of the words "or minimum bill" should be added to FOF # 165 immediately after the words "a fixed charge." Thus, it would say "A fixed charge *or minimum bill* to reflect a portion of fixed costs would reduce the subsidy to low usage customers."

FOF 162 and 163 do not have adequate support in the record and are too general. FOF # 162 states "Under a volumetric rate structure, low usage customers do not pay their share of fixed costs of service" and FOF # 163 states "Under a volumetric rate structure, customers with extreme low usage, such as vacation home owners and NEM customers, do not pay their share of fixed costs." They should be modified to acknowledge what low usage customers do pay. For example, both PG&E and SDG&E currently have minimum bills in effect in the $5 per month range. Thus, low usage customers pay at least this much. The PD adopts a minimum bill of $10 for non-

CARE customers, thus, vacation home owners and NEM customers would pay at least this level of their share of system costs.

FOF # 183 is also not supported by the record and should be deleted. It states "A fixed charge to reflect a portion of fixed costs will support the rate design principle of cost-causation." ORA argued extensively that the principle on cost-causation must be interpreted in a way that is consistent with rate design principle #2, that rates must be based on marginal costs. The fixed costs that are at issue here are really sunk costs and thus have no place in a marginal cost based rate design.[21]

C. Other Fixed Charge Issues

In addition to what is includable in fixed charges, there are more specific details in the PD that must be addressed. First, the PD seems to reflect a fundamental misunderstanding of the nature of bill impacts when it states:

> And, although we acknowledge that a fixed charge would represent a larger percentage of the monthly bill for those customers whose usage is lower, we disagree with the proposition that fixed charges will disproportionally impact low-income or low-usage customers, because, along with a fixed charge, these customers would see lower volumetric rates than would be necessary with a minimum bill.
> (PD, p. 194)

ORA disagrees with this paragraph in the PD. A traditional bill impact study looks at the customer bill based on current rates, and compares that bill with one based on proposed rates. The rates in this PD include increases to the tier 1 rates, which is a part of the process of the rate reform we are examining. In general, the PD is lowering tier 3 and 4 rates and increasing tier 1 and tier 2 rates. Clearly, if a fixed charge was implemented while tier 1 rates were increasing, lower usage customers' bills would be increasing.

ORA provides a simple example to illustrate why the above statement in the PD is inaccurate. In PG&E's baseline zone X, the summer baseline allowance is 307 kWh per

[21] ORA Opening Brief, p. 27.

month. If a fixed charge of $10 per month were implemented, the tier 1 rate would need to be reduced by approximately 3.3 cents per kWh to make a customer consuming exactly at the baseline level indifferent to this rate change, while those who use less than this amount would be worse off. Given the future increases in the baseline rate that the PD endorses, a reduction of this magnitude is unlikely. Indeed, the PD seems to acknowledge on the next page that "the majority of customers' bills will increase." (PD p. 195).

Second, the PD presents in two tables the adopted minimum bill levels for 2015 – 2018, but then states directly afterwards that these levels are "subject to review in each electric utility's GRC Phase 2 "(PD, p. 203).   If they are adopted, they would not be subject to review, unless the PD intended to say they are subject to review after 2018. That does not seem to be the PD's intent, since the PD proposes fixed charges beginning in 2018, and the PD portrays minimum bills as substitutes for fixed charges, suggesting that one would not implement both simultaneously.

Finally, ORA points out one typographical error. The last paragraph on page 179 is repeated verbatim as the first paragraph on page 180.

III. CONSOLIDATION AND NARROWING OF TIERS

A. Clarification on avoidance of bill shock

The PD adopts the following revenue change treatment on the tiers during the transition period:

- "Revenue Requirement Increases: allow tiers to move on an equal percent basis, except that Tier 1 increases are capped at RAR plus 5% relative to May 1 rates.
- Revenue Requirement Decreases: the non-CARE Tier 1 and 2 rates, as well as all CARE rates, would remain at their then-current levels and non-CARE Tier 3 rates would be decreased so as to collect the lower revenue amount.
- The glidepath should be no steeper than necessary to reach 1.2:1 by 2019. The glidepath shall continue until the later of

> (i) January 1, 2019 or (ii) the year the 1.2:1 tier ratio is achieved."[22]

ORA generally supports these provisions, but modifications on the Tier 1 rate caps as well as the revenue decrease treatment will help ensure reasonable 2015 rates.

1. Tier 1 Rate Changes

The PD extensively discusses tier flattening and consolidation. The PD proposes to reduce bill shock on customers: "For 2015, the IOUs included expected revenue increases. Therefore, the 2015 rates included in Appendix B are a reasonable estimate of the 2015 rates customers will face. This decision addresses concerns about unexpected or large revenue requirement increases by setting certain caps on rate changes after 2015."[23] The language appears to imply that caps are not needed for 2015. However, rate and/or bill shocks should always be mitigated, especially for Tier 1 rates, which is for essential baseline usage. Therefore, in setting summer 2015 rates, the Commission also should review the rate changes over the last twelve months for guidance. This also would be more consistent with the PD's adoption of a four-tiered rate structure for PG&E and SCE for 2015 rates that was adopted in order to moderate bill impacts. For instance, PG&E's non-CARE tier 1 rate already increased by 12% between August 2014 (last summer rate)

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[22] PD, p. 251.

[23] PD, p. 96.

and March 2015 (the current rate) while the CARE tier 1 rate increased by 18%.[24] These percentage increases are more than the residential average rate increase plus five percent. In order to avoid bill shock before May 2016, consistent with the PD's recommendations for future years, there also should be a rule stating that, if the tier 1 rate already exceeds RAR plus 5% relative to the rate twelve months ago, the tier 1 rates should not be increased prior to May 2016. This should apply for all the IOUs.

2. Tracking Tier 1 Rate Changes

The PD states that Tier 1 increases are capped at RAR plus 5% relative to May 1 rates. It also defines RAR to be Residential Average Rate.[25] It is important to make sure that the cap is applied based on the residential average rate, and is not mistakenly based on the residential revenue. Under the same revenue increase scenario, the average rate would increase even more in the event that sales decline than when sales stay constant or increase.

In addition, some mechanism needs to be in place to properly track Tier 1 rate increases to ensure that such increases will not exceed the adopted capping standards. For instance, SDG&E's April 24, 2015 supplemental rate filing shows that the 2016 tier 1

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[24]

PG&E Rate Changes between March 2015 & August 2014			
NonCARE	Aug-14	Mar-15	Changes
Tier 1	0.147	0.164	12%
Tier 2	0.170	0.187	10%
Tier 3	0.259	0.275	6%
Tier 4	0.319	0.335	5%
CARE			
Tier 1	0.092	0.109	18%
Tier 2	0.106	0.123	16%
Tier 3	0.151	0.167	11%

August 2014 rates were shown in Exh. ORA 101, p.3-11. March 2015 rates were shown in PG&E's April 24, 2015 revision to the supplemental filing pursuant to the ALJ's April 22, 2015 email ruling.

[25] Id, A-2.

rate substantially exceeds the RAR plus 5 percent restriction.[26] ORA recommends that when the IOUs file Advice Letters ("AL") to reflect revenue requirement and associated rate changes, they be required to provide extra information that will help parties to review the rate proposals more efficiently. The IOUs should be required to show non-CARE rates, CARE rates, the residential average rate ("RAR") change in percent terms, and the system average rate ("SAR") change in percent terms. The RAR and SAR changes should be measured from the previous May to the present May, or for a year's period from when rates in this decision are implemented.

A common template for such rate filings should be used. ORA includes SDG&E's RROIR filing below as a sample to show how such rate changes can be presented.

Attachment A
Additional Rate Impact Tables
Scenario Section IB
SAN DIEGO GAS AND ELECTRIC COMPANY
APRIL 1, 2015 SUPPLEMENTAL FILING RULEMAKING 12-06-013 PHASE 1

Revenue Requirement ($ Millions)						
	Historic Effective				2015 Year-End Assumptions	
	January 1, 2014	August 1, 2014	January 1, 2015	February 1, 2015	2015 GHG	2015 GHG + ERRA Trigger
Residential Revenue[2]	1,648	1,695	1,813	1,813	1,833	1,866
System Revenue[2]	3,545	3,902	4,077	4,076	4,107	4,165
Residential Average Rate[2]	21.1	21.6	23.2	23.1	23.4	23.8
System Average Rate[2]	18.1	20.5	21.3	21.3	21.4	21.8

[1] Project year end 2015 Rates with 2015 test year sales. This is the reference for 2015 - 2018
[2] Presentation of Resenidtal and System Class Average Rates and Revenues exclude California Climate Credit Revenues

Total Rates - Schedule DR and DR-LI						
	Historic effective rates				2015 Year-End Assumptions	
	January 1, 2014	August 1, 2014	January 1, 2015	February 1, 2015	2015 GHG	2015 GHG + ERRA Trigger
Schedule DR						
Monthly Service Fee						
Summer Energy						
Baseline Energy	15.0	16.5	17.2	17.2	17.4	17.7
101% to 130% of Baseline	17.3	18.9	20.3	20.2	20.5	20.8
131% to 200% of Baseline	35.8	36.9	40.1	40.1	40.4	41.1
Above 200% of Baseline	37.8	38.9	42.1	42.1	42.4	43.1
Winter Energy						
Baseline Energy	15.0	16.5	17.2	17.2	17.4	17.7
101% to 130% of Baseline	17.3	18.9	20.3	20.2	20.5	20.8
131% to 200% of Baseline	33.9	33.4	36.6	36.6	36.8	37.5
Above 200% of Baseline	35.9	35.4	38.6	38.6	38.8	39.5
Minimum Bill ($/day)	0.17	0.17	0.17	0.17	0.17	0.17
Schedule DRLI (After Discount and Exemption)						
Monthly Service Fee						
Summer Energy						
Baseline Energy	10.0	10.5	11.2	11.2	11.4	11.6
101% to 130% of Baseline	11.6	12.3	13.1	13.1	13.3	13.5
131% to 200% of Baseline	17.6	18.7	19.9	19.9	20.1	20.5
Above 200% of Baseline	17.6	18.7	19.9	19.9	20.1	20.5
Winter Energy						
Baseline Energy	9.9	10.5	11.2	11.2	11.4	11.6
101% to 130% of Baseline	11.6	12.3	13.1	13.1	13.3	13.5
131% to 200% of Baseline	16.4	17.4	18.6	18.6	18.8	19.1
Above 200% of Baseline	16.4	17.4	18.6	18.6	18.8	19.1
Minimum Bill ($/day)	0.14	0.14	0.14	0.14	0.14	0.14

April 1, 2015 Supplemental Filing Rulemaking 12-06-013 Phase 1 1 of 46

[26] SDG&E April 24, 2015 supplemental rate filing. Attachment 2A shows that tier 1 rate increase is 22.2% for Non-CARE and 26.8% for CARE even though SDG&E assumes no revenue increase for 2016. SCE's rates have similar issues.

3. Asymmetric Revenue Requirement Change Treatment

The PD allows the IOUs to apply asymmetric treatment on revenue requirement changes to the tiered rates. This could create rate yo-yo effect[27] and cause lower tiered rates to increase more than necessary, while upper tier rates go up and then down. ORA in its RROIR Phase 2 testimony regarding SDG&E's 2014 summer rate changes demonstrated how the IOUs can manipulate such rules and unfairly over burden lower tiered usage customers. ORA presents a hypothetical situation. Suppose that SDG&E faces three revenue changes: a $100 million increase in September, followed by a $100 million increase in October, in turn followed by a $100 million reduction in December. The results are duplicated below: [28]

SDG&E Non-CARE Rates	Nov. 2013	Summer 2014: ORA 100% Revenue	Increase from Nov. 2013	Scenario A (One-time Consolidated Revenue Change)	Increase from Nov. 2013	Scenario B (Three Revenue Changes)	Increase from Nov. 2013
T1	$0.148	$0.170	15%	$0.179	21.2%	$0.189	27.7%
T2	$0.171	$0.202	18%	$0.207	21.1%	$0.218	27.6%
T3	$0.346	$0.371	7%	$0.371	7.3%	$0.353	1.9%
T4	$0.366	$0.411	12%	$0.411	12.4%	$0.393	7.3%
CARE Rates							
T1	$0.099	$0.114	15%	$0.120	21.2%	$0.123	24.3%
T2	$0.116	$0.133	15%	$0.141	21.4%	$0.144	24.4%
T3	$0.175	$0.201	15%	$0.212	21.3%	$0.217	24.2%
T4	$0.175	$0.201	15%	$0.212	21.3%	$0.217	24.2%

The Commission should apply symmetric treatment for revenue increases and reductions, when rates are changed to prevent the undesirable outcome described above from occurring. If the Commission decides to keep this asymmetric treatment, then it should direct the IOUs to consolidate their rate change filings as much as possible to reduce

[27] Yo-yo effect means rates go up and down unnecessarily.

[28] RROIR Phase 2, ORA testimony on SDG&E 2014 summer rate relief, p. 14, Table 5.

unnecessary rate fluctuations and even "gaming". It should be noted that the IOUs claimed that multiple filings are inevitable.

B. The Discussion on the Benefits of Tier Flattening Are not Supported by the Record

While the PD correctly addresses many of the bill shock problems created by abrupt tier consolidation, the PD also states that high use customers currently subsidize low-use customers by stating:

> At its most basic level, tiered rates (or inclining block rates) result in a subsidy from high-use customers, who pay more than the cost of energy services, to low use customers, who pay less than the cost of energy services. This price structure is the opposite of the declining price structure that consumers are familiar with for other commodities. The inclining block structure is designed not to reflect cost but to promote policy goals.[29]

ORA does not believe that this is necessarily true or supported by the record. Customers with different load profiles impose different costs on the utility system. The issue is more complex than what is portrayed in the PD. There is no record to support such a generalization, and this statement should be removed from the Decision. Similarly, the PD finds that "high-usage customers are efficient customers: it costs utilities less to serve at the margin than low-usage customers."[30] Again, this is not necessarily true, and there is no factual basis to make such a statement.

C. Clarifications on Baseline Changes for PG&E and SCE

The PD is inconsistent in its treatment on baseline changes to PG&E and SCE for no apparent reason. For instance, the PD states, "we find that tier flattening between now and 2019 will have a more significant bill impact on lower usage customers than additional incremental baseline adjustments. We therefore deny SCE's request to reduce

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[29] PD, p. 96

[30] PD, p. 108.

SCE's baseline quantity."[31] As shown in the PD, PG&E's current baseline level, 52.5 percent, is slightly lower than SCE's 53 percent.[32] The PD should clarify that the moratorium on changes to the baseline rate also applies to PG&E. Otherwise, there may be unnecessary and repeated litigation of the same issue during this transition period.

IV. OPT-IN TOU AND SEASONAL RATES

A. Clarification is Needed on Seasonal Rate Schedules

The PD's direction to the IOUs regarding existing seasonal rates is somewhat contradictory and requires clarification. For instance, the PD "directs SCE and PG&E to explore seasonally differentiated rates for 2016, to be proposed in the next applicable GRC or RDW."33 Yet, the PD "also approves PG&E's request to eliminate E-8, which is a seasonal rate schedule."34 The PD further states that E-8 customers would be switched to schedule E-135 when E-8 is eliminated. The above two orders are contradictory and should be clarified since PG&E's E-8 tariff already is seasonally differentiated. ORA thinks it would make more sense to modify and maintain the E-8 schedule than to eliminate the schedule and create an entirely new seasonal rate schedule. This would also avoid the problem of transferring all the customers who opted into a seasonal rate schedule to schedule E-1. Further, SCE has one seasonal rate that was just recently closed.36 Should it be reopened?

B. Clarification and Direction on the TOU Structure

The PD states

> During the TOU-Lite transition period, we would expect to see less load shifting than we would with a full cost-based

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[31] PD, p. 113-114.

[32] Id.

[33] PD, p. 117.

[34] PD, p. 142.

[35] PD, p. 137.

[36] SCE's DS tariff is a seasonally differentiated rate, which is going to be migrating to TOU rate options per 2012 GRC.

> peak price…However, during the transition, it is more important to ensure customer acceptance of the new rate structure and understanding of the directional price signal. The TOU-lite structure will be more acceptable to customers, less volatile, and avoid other potential issues. The shift toward more cost-based peak period prices may be made later, through steps spelled out in Residential RDW application as modified by data and experience gathered during the course of pilot implementation and ongoing review of the glidepath transition between 2015 and 2019.[37]

ORA agrees with the PD's rationale and explanation about TOU-lite structure. However, ORA recommends that the PD clarify that more cost-based time-differentiated rates should be studied as part of optional TOU rates while the initial default rates should be designed using a TOU-lite rate for more customer acceptance.

C. Legal and Factual Issues Involving Five-Year TOU term.

The PD states, "AB 327 requires default TOU periods that are '"appropriate'" for 5 years. There are excellent policy reasons for requiring a five year term for TOU periods for default TOU rates."[38] While ORA agrees that there are good policy reasons to retain TOU periods for 5 years, ORA disagrees with the legal interpretation that a five-year term is ***required***. Public Utilities Code Section 745 (c)(3) states, "The commission shall ***strive*** for time-of-use rate schedules that utilize time periods that are appropriate for at least the following five years." (Emphasis added). Therefore, it is not legally required to have these rates in effect for five years.

D. Legal and Factual Issues Involving Open and Closed Tariffs and Customer Charges.

The PD states:

> In this proceeding, we find it appropriate to approve PG&E's request to close E-6 in 2016, and PG&E's and SDG&E's requests for new TOU tariffs, consistent with our discussion above…. However, given the number of significant changes

[37] PD, p. 118.

[38] PD, pp. 142-143

> we are adopting, including tier flattening and **increased use of fixed** customer **charges** and minimum bills, and given the need for customer acceptance, we also find that the transition period from the closed E-6 and E-7 tariffs and SDG&E's TOU tariff should be five years from the date the tariff is closed to new customers…. The minimum bill or fixed charge approved for the default tariff must also apply to existing TOU rates including E-6 and E-7.[39]

The language "increased use of fixed customer charge" should be eliminated since, between now and at least 2019, the PD does not allow for the introduction of new customer charges. Further, the PD should clarify that the language means to grandfather both PG&E's E-6 & E-7 for five years and clarify that the grandfathering policy is for both rate structure and the TOU periods. That is, the current TOU hours would be retained. This is consistent with the PD's statement on page 161: "(4) TOU tariffs should include a legacy provision that allows subscribers to remain on their existing TOU tariff (with its original TOU periods)…"

V. THE CARE DISCOUNT

A. The PD's Calculation of PG&E's 2015 CARE Discount is Incorrect, and the PD Should Clarify Future CARE Discount Parameters.

The PD lists the PG&E CARE discount as 43.2 percent, based on PG&E Exhibit 109.[40] In its April 23, 2015 Supplemental Filing, PG&E showed its current Non-CARE and CARE rates in 2015. It turns out that PG&E's March 2015 CARE discount actually is 38 percent.[41]

[39] PD, pp. 142-143. (emphasis added).

[40] PD, p. 205.

[41] PG&E did not include this information in its supplemental rate filings.

NonCARE	August14[42]	Mar-15[43]
Tier 1	0.147	0.164
Tier 2	0.170	0.187
Tier 3	0.259	0.275
Tier 4	0.319	0.335
CARE		
Tier 1	0.092	0.109
Tier 2	0.106	0.123
Tier 3	0.151	0.167
Tier 4	0.151	0.167
CARE Discount	**42%**	**38%**

In its final supplemental filing (April 24, 2015), PG&E retained the CARE Tier 1 rate at the current (March 2015) level and keep the total CARE discount at 38%[44] level.

The PD should provide additional guidance on changes to CARE rates. The PD correctly takes into account significant rate increases that occurred in the summer of 2014 in setting the appropriate rate design for the next few years. It states "Our analysis considers the 2015 rate changes and the rate directions for the Roadmap. In addition, we consider the impacts of the significant rate reform made in summer 2014 as part of the cumulative impact analysis."[45] Based on this, the PD should clarify that PG&E's CARE rates should not be increased for the remainder of 2015 even if PG&E's forecast of "zero revenue increase" turns out to be incorrect. This is because any additional increases to CARE rates beyond the 18% increase between August 2014 and March 2015 would ignore the cumulative impact that the PD recognizes is important. The PD directs the

[42] ORA Exh. 101, p.3-11. CARE discount can be calculated by taking one minus (Sum of the CARE tier rates * the CARE tier usages) /(Sum of the non-CARE tier rates * the CARE tier usages). The tier usage data are shown in PG&E Exh 114, Oct 17 rebuttal WP-4.

[43] PG&E April 24, 2015 filing.

[44] ORA calculated the CARE discount using PG&E's projected end of year 2015 rates and followed the method described in footnote 42 above.

[45] Id., pp. 237-238.

IOUs to leverage on energy efficiency program or ESAP assist CARE customers when they face the prospect of higher than normal bill impact challenges.[46] However, it should be noted that these programs have not proven to be cost-effective tools to moderate bill impacts.

B. The Discussion of SCE's CARE rate is inaccurate

The PD states: "The bill impact tables show that CARE customers in SCE's territory will see a reduction in their bills."[47] This is not correct. On p. 215 of the PD, there is a chart showing "Change in Average Monthly CARE Bill under SCE's Scenario 3a ($5 Minimum Bill, 1:1.2 Differential)." One line of the chart shows the average dollar change in 2015, and another line shows average dollar change for the period 2015-2018. Both lines show increases to average monthly bills for CARE customers. SCE's bill impact tables for these scenarios show the number of customers for each usage range.

It is necessary to make another calculation for the cumulative percentage of **CARE** customers per usage range as it is not provided in the bill impact tables. This calculation shows that 60% of CARE customers would receive bill increases in 2015, and 81.1% would receive bill increases over the 2015-2018 period. Some CARE customers would receive bill increases as large as $9 per month over the 2015 to 2018 period. SCE also provided a scenario for the period 2014 to 2018, which includes the summer 2014 rate increases. Under the Scenario 3a for the 2014 to 2018 period, 98% of CARE customers would receive a bill increase and some would experience an average increase as large as $17 per month. It is important to realize that a majority of SCE's CARE customers will receive a bill increase under the proposals being considered, and hence it is important to make rate changes in a gradual and careful manner.

On p.263, the PD shows a "Table showing SCE's approved Tier Flattening Glidepath for CARE rates (no fixed charge) with minimum bill." These rates show a large increase to CARE tier 1 and tier 2 rates. This is not a glide path, and should not be

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[46] PD, pp. 234-235.

[47] PD, p. 210.

adopted. Tier 1 rates would increase by 25% from 2014 to 2015 and by 38.6% from 2014 to 2016. These rate increases clearly conflict with and exceed the guideline for allowable tier 1 rate increases of RAR plus 5% that is listed on p.260. The tier 2 rate increases are also troublesome, with a 53.6% increase from 2014 to 2015. Hopefully SCE's revenue requirements increases for the remainder of 2015 will be smaller than initially forecasted by SCE. In any case, the table on p.263 should not be included in the PD as it shows unreasonable CARE rate increases that conflict with the rate protection guidelines on p.260. Also, the CARE rates that would result from following the proposed glidepath for tier consolidation for non-CARE rates for SCE on p.261 would hopefully result in better CARE rates—far different from those shown on p.263. The table on p.263 either should be updated to show a glidepath to 2019 or should be deleted.

VI. 2015 RATES

Conclusion of Law (COL) 48 and 50 state:

> 48. The proposed 2015 rates of PG&E, SCE, and SDG&E, as modified by this decision are reasonable and compliant with law and the RDP.
>
> 50. The proposed 2015 rates and roadmap for the transition period, as set forth in this decision for each of the IOUs, should be adopted.

On April 24, 2015, the IOUs submitted their rates, pursuant to the ALJ's April 22, 2015 email ruling, based on their interpretation of the PD. ORA notes some disagreement on those rates based on its own interpretation of the PD as explained in Sections III and V. The decision can provide general guidelines, but they can lead to different rate results based on how the reader interprets the guidelines or rules. It is premature to state that the 2015 rates are reasonable. The Commission should direct the IOUs to file Tier 2 advice letters. The IOUs should strive to work with ORA and other parties so that some consensus can be reached before those rates can be approved by the ED/Commission and become effective. Tier 1 advice letter, by rule, makes rates effective immediately. Therefore, it will not provide other parties and the Commission adequate time to review and ensure the reasonableness of those rates.

VII. CONCLUSION

This PD reviewed a wide variety of complex issues related to reforming residential rates. In general, ORA appreciates the hard work that went into crafting the PD and supports many of the main conclusions of the PD. It adopts default TOU rates in 2019, pursues rate reform at a more moderate pace than that proposed by the IOUs, and does not approve new residential customer charges for the time being. In these comments, ORA makes many suggestions that would improve the PD and increase the accuracy of discussions and conclusions regarding many of these policy issues. It is of course difficult for a record this large to be 100% accurate, but we should do our best and make corrections of the record, which will hopefully reduce future litigation on these issues.

Respectfully submitted,

/s/ GREGORY HEIDEN

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Gregory Heiden

Attorney for the Office of Ratepayer Advocates

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 355-5539
Fax: (415) 703-2262
E-mail: gregory.heiden@cpuc.ca.gov

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APPENDIX A

(Proposed changes on Findings of Fact, Conclusions of Law and Ordering Paragraphs)

Findings of Fact

3. ~~Since~~ Between 2001 and 2009, lower usage tier rates have mostly been frozen resulting in most increases in revenue requirements allocated to residential customers with usage in the upper tiers.

5. The steep differentials between usage tiers result in lower tier rates substantially below average cost of service and upper tier rates substantially above average cost of service.

7. ~~Residential customers do not receive price signals that reflect their cost of service.~~

11. A customer's electricity price elasticity depends in part~~is based~~ on the customer's ability to reduce or shift use, as well as the customer's awareness of the electricity price.

~~12. If the customer is not aware of the electricity price at a given hour, the price will not incent the customer to shift or decrease usage.~~

19. Payback periods for energy efficiency investments, and investments in rooftop solar by customers who consume primarily in the lower tiers, ~~by customers who consume primarily in the lower tiers,~~ will be increased if the price of lower tier energy is raised.

22. The average price methodology for determining price elasticity reflects ~~most~~ customers' understanding of their energy bills.

~~26. The impacts of the rate design changes on conservation will be small.~~

36. If peak use is reduced, the need to build power plants to serve customers for peak hours, which are short periods of time, will be reduced.

50. Revenue requirement changes for 2015 may be different from what the IOUs projected and changes after 2015 are not known.

52. Tiered rates (inclining block rates) result in a potential subsidy from high-use customers, who pay more than the average cost of energy services, to low use customers, who pay less than the average cost of energy services.

58. Steeply tiered rates originally were designed to encourage overall conservation during energy crisis. They were not designed as the primary tool to promote rooftop solar investments.

62. ~~To the extent tiered rates may promote energy efficiency or conservation, a mild differential between two tiers is sufficient to maintain a conservation signal.~~

63. Programs such as CARE and FERA are designed to keep energy affordable to lower income customers.

64. A steeply tiered rate can result in volatile month-over-month electricity bills.

70. A mild differential between tiers is closer to average cost to serve than a steep differential.

73. ~~Low income customers with high usage will benefit from the flattened tier structure.~~

75. Under a steep multi-tier rate structure, members of large households tend to pay a disproportionate share of electricity costs.

77. A two-tier rate ~~with a 1:1.2 differential~~ meets statutory requirements and is consistent with the RDPs.

82. The transition period to an end-state of two tiers at ~~1:1.2~~ should extend to 2019.

88. The basic baseline quantity must be between 50 and 60% of average residential consumption. The all-electric baseline quantity must be between 60 to 70% of average residential consumption.

92. For SDG&E, reducing the baseline quantity at the same time that Tier 1 is expanded to 130% would bring the number kWh covered under Tier 1 closer to the ~~number of kWh covered prior to the tier consolidation~~ upper band of the legal baseline usage requirement.

95. ~~SCE and PG&E do not currently have seasonally-differentiated rates for residential customers.~~

~~99. There is no reason not to also seasonally differentiate lower tier rates.~~

115. If TOU rates do not include a baseline credit, low usage customers will have an incentive to stay on tiered rates and some high usage customers will have an incentive to move to TOU without shifting their usage.

128. TOU periods should be based on IOUs' costs, grid needs, and should take into consideration ~~of~~ customer acceptance.

139. ~~The times at which additional generation, or reductions in usage, are needed have changed over the last ten years.~~

141. ~~TOU tariffs with outdated TOU periods should be closed to new customers~~

146. A TOU rate should be designed to be revenue neutral to the residential customer class during the transitional period.

149. ~~A fixed charge will increase the portion of the revenue requirement that utilities can forecast without predicting customer usage.~~

162. Under a volumetric rate structure that does not include a minimum bill, low usage customers do not pay their share of fixed costs of service.

163. Under a volumetric rate structure that does not include a minimum bill, customers with extreme low usage, such as vacation home owners and NEM customers, do not pay their share of fixed costs.

164. A fixed charge or minimum bill to reflect a portion of fixed costs would reduce the current subsidy to vacation homeowners and NEM customers.

165. A fixed charge or minimum bill to reflect a portion of fixed costs would reduce the subsidy to low usage customers.

173. Fixed charges ~~must~~ may reflect appropriate fixed costs.

174. ~~Fixed~~ Marginal costs attributable to the residential customer class and the other customer classes are litigated in GRC Phase 2.

175. The GRC Phase 2 allocates costs among different classes of customers to reflect cost causation.

176. Recent GRCs have usually settled the marginal costs and revenue allocation ~~of fixed costs~~ and are therefore not useful as a basis for setting a new rate structure that was not contemplated during the GRC settlement.

177. ~~A fixed charge to reflect fixed costs will send a more accurate price signal to customers.~~

~~178. A fixed charge is not intended to incent specific customer behavior, but is intended to assist the customer in making economically efficient decisions regarding energy usage and investments~~.

183. ~~A fixed charge to reflect a portion of fixed costs will support the rate design principle of cost-causation.~~

188. Currently, the effective discount rates for CARE ~~have increased to~~ are ~~43.2~~37% (PG&E), 31% (SCE), and 38% (SDG&E).

Conclusions of Law

7. Based on record evidence demonstrating that customers frequently do not know what tier they are in, or the price associated with that tier, it is reasonable to conclude that some customers respond to an average price as opposed to the price of the highest, or marginal tier.

8. ~~Because none of the parties' showings provide sufficient basis for finding that reducing existing tiered rates from four tiers to two would significantly decrease, or increase, conservation, it is reasonable to conclude that any impacts resulting from the parties' proposed rate design changes would not unreasonably impair conservation~~.

13. SCE and PG&E's baseline quantity should not be changed ~~at this time~~during the transitional period.

14. ~~SDG&E's proposed changes to baseline complies with the Section 739(a)(1) requirement to set the baseline between 50 - 60% of average residential consumption for basic customers and 60-70% for all-electric customers in the winter heating season and should be approved effective as of the date that Tiers 1 and 2 are consolidated~~.

15. ~~A fixed charge representing a portion of the fixed costs to serve the individual residential customer is reasonable~~.

16. Adopting a fixed charge at the same time as customers are also facing significant rate impacts associated with tier flattening would be inconsistent with our statutory duty to ensure reasonable rates.

17. ~~A fixed charge should not be implemented until the tier collapse is completed~~

19. ~~As part of their next General Rate Case Phase 2, each utility may submit testimony addressing the appropriate level of fixed customer costs,~~

~~including how these fixed customer costs would be reflected in a residential fixed charge~~ or minimum bill ~~for small and large customers.~~

24. The CARE discount reduction glidepaths proposed by SDG&E ~~and PG&E~~ are reasonable phase-in schedules and comply with law.

35. The utilities should be authorized to create memorandum accounts to track verifiable incremental expenses for rate design outreach and education.

~~40. PG&E's request to eliminate Schedules E-8 and EL-8 should be approved.~~

46. Any revenue shortfall resulting from optional TOU rate schedules should be recovered from all residential customers during the transitional period.

50. The ~~proposed 2015 rates and~~ roadmap for the transition period, as set forth in this decision for each of the IOUs, should be adopted.

ORDER PARGRAPHS

7. Pacific Gas and Electric Company is directed to file a residential rate design window (RDW) application no later than January 1, 2018 proposing default TOU rate for residential customers. ~~The RDW application may include a fixed charge representing a portion of PG&E's fixed costs to serve residential customers as determined in PG&E's previous general rate case. The RDW application must include information and documentation reasonably sufficient to support the proposed rate.~~

8. San Diego Gas and Electric Company (SDG&E) is directed to file a residential rate design window (RDW) application no later than January 1, 2018 proposing default TOU rate for residential customers. ~~The RDW application may include a fixed charge~~ or minimum bill ~~representing a portion of SDG&E's fixed costs to serve residential customers as determined in~~

~~SDG&E's previous general rate case. The RDW application must include information and documentation reasonably sufficient to support the proposed rate.~~

9. Southern California Electric Company (SCE) is directed to file a residential rate design window (RDW) application no later than January 1, 2018 proposing default TOU rate for residential customers. ~~The RDW application may include a fixed charge representing a portion of SCE's fixed costs to serve residential customers as determined in SCE's previous general rate case. The RDW application must include information and documentation reasonably sufficient to support the proposed rate~~.

10. Within 30 days of the date of this decision, Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas and Electric Company must each file a Tier 1 Advice letters establishing a new memorandum account to track verifiable incremental costs associates with time-of-use rate design, and pilot and study design, including marketing, education and outreach specific to time-of-use rates and other rates required by this decision.